



**Actuarial & Employer Services Branch**

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November 14, 2006

**AGENDA ITEM # 9**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

**I. SUBJECT:** Actuarial Assumption Model for Other Post Employment Benefits (Including Post-Retirement Medical)

**II. PROGRAM:** Actuarial & Employer Services and Health Benefits

**III. RECOMMENDATION:**

Staff recommends that the Committee recommend the Board adopt the CalPERS Other Post Employment Benefits (OPEB) Assumption Model. The model is to be used in OPEB actuarial valuations by employers that participate in the Public Employees' Medical and Hospital Care Act (PEMHCA) and elect to pre-fund their OPEB obligation through CalPERS' prefunding plan.

**IV. ANALYSIS:**

As discussed at the May 2006 meeting of the Health Benefits Committee, CalPERS contracted with three actuarial firms – EFI Actuaries, Gabriel Roeder

& Smith, and Milliman, Inc. – to identify, document and develop a standard assumption model that could be used for OPEB actuarial valuations.

After meeting with these three firms and also with the participation of other actuaries from The Segal Company and Bartel Associates LLP, a final assumption model was selected. The assumption model was prepared by CalPERS staff actuaries who are responsible for its content. However, the model also reflects the consensus of the other participants.

The model is to be used in OPEB actuarial valuations by employers participating in the PEMHCA who choose to pre-fund their OPEB obligations through CalPERS. Under Statement No. 43 of the Governmental Accounting Standards Board, once CalPERS receives contributions to pre-fund OPEB obligations then CalPERS is required to report those obligations on CalPERS' financial statements. Having a standard assumption model for employers is essential for the proper reporting of OPEB obligations on CalPERS' financial statements.

The assumption model generally dictates the actuarial assumptions and methods to be used but allows some flexibility in areas where it was felt necessary and appropriate.

A copy of the assumption model is included as Attachment 1.

## **V. STRATEGIC PLAN:**

This item supports Enterprise Goal I: Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefits systems.

**VI. RESULTS/COSTS:**

For those employers using the recommended actuarial assumption model and electing to fully pre-fund their OPEB obligations, thereby utilizing a higher discount rate in their actuarial valuations, the actual cost for these obligations to the employer/taxpayer can be reduced by 50% or more.



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